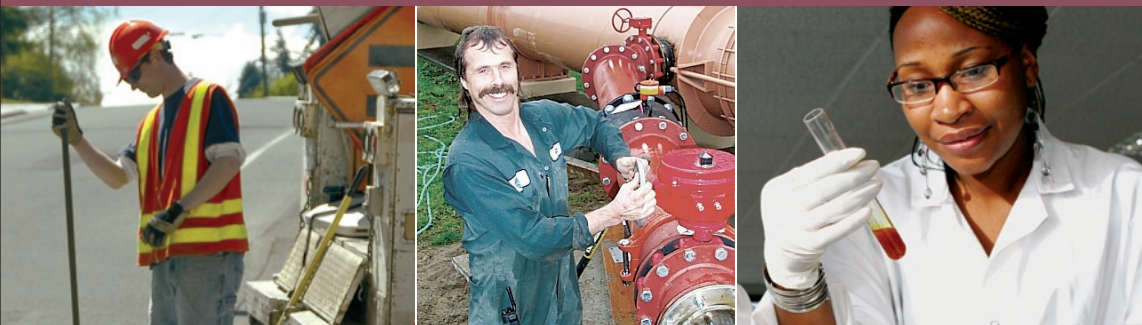
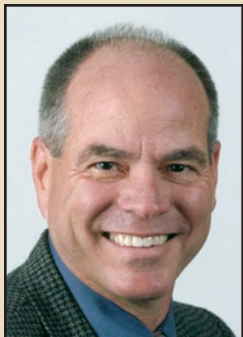


## City of Everett Utilities Division



## 2006 Annual Report





## Message From the Director

In 2006, our utility continued an ongoing commitment to prepare for the future while minimizing impacts on the local environment. We cleaned, repaired and replaced many miles of aging water and sewer lines. We made significant progress on improvements at the Everett Water Pollution Control Facility and completed design of two major projects at the Everett Water Filtration Plant. We also began the process of updating both our water and sewer comprehensive plans—plans that detail how the utility will keep pace with the rapid growth in our area.

The key to leveraging the capital that is necessary to meet the future needs of our water and sewer utilities is maintaining a strong fiscal position. This past year we implemented minor rate increases to support past bond issues. We also received a \$3 million State Revolving Fund loan and a \$7 million Public Works Trust Fund loan to help support capital project funding.

Our utility constantly explores ways to improve the way we do business. We seek feedback from customers on the services we provide and interface with other utilities to learn about new products and practices. However, our most important asset is our dedicated staff and the excellent leadership of Everett Mayor Ray Stephanson and the Everett City Council: Council President Brenda Stonecipher, Council Vice President Mark Olson, and council members Paul Roberts, Arlan Hatloe, Ron Gipson, Drew Nielsen and Bob Overstreet.

**Tom Thetford,**  
*Utilities Director*



## Water Utility

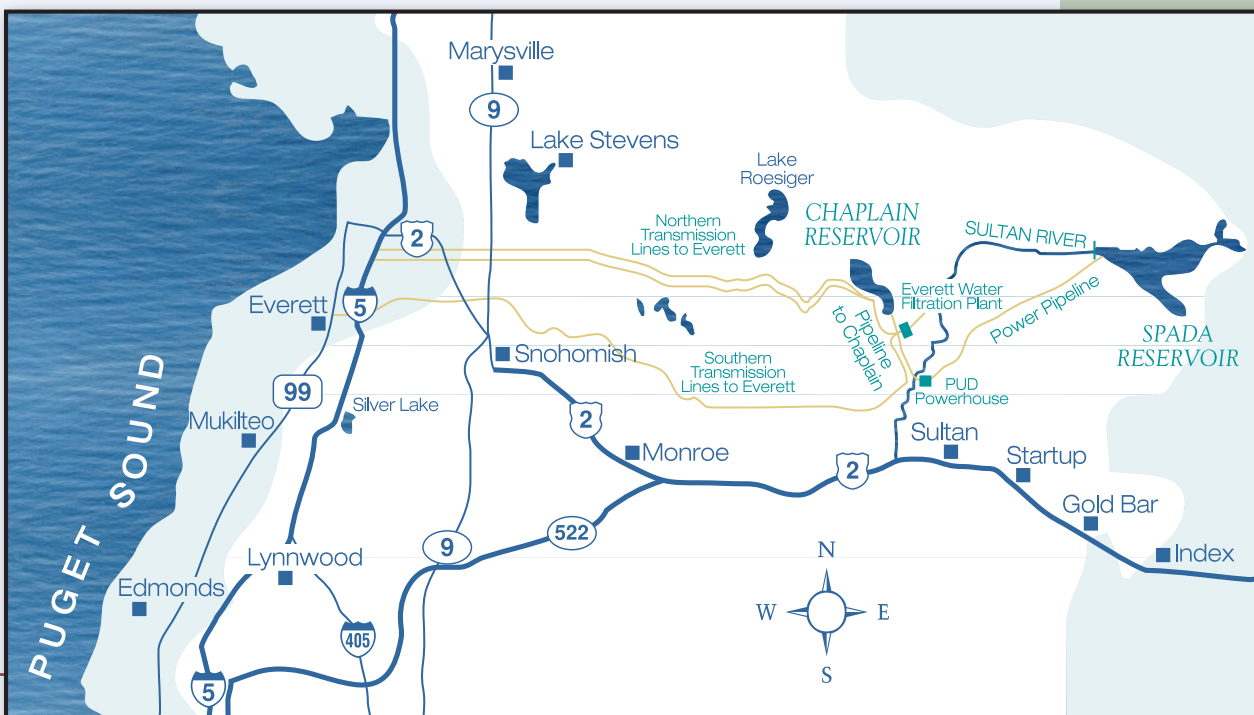
For nearly a century, the City of Everett has developed a system to provide water to Everett and numerous neighboring communities. From reservoirs, to water treatment facilities, to transmission and distribution lines, the City has worked proactively to keep pace with the rapid growth in the area. Today, the City has water rights for 258 million gallons of water a day from the Sultan River system and provides drinking water to nearly a half-million residents in Snohomish County, Washington.



*Spada Reservoir*

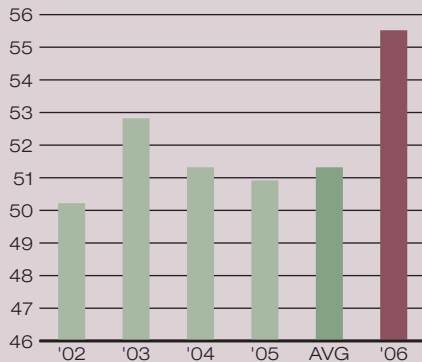
The City of Everett enjoys an abundant supply of water from Spada Reservoir. Spada Reservoir was created in 1964 in partnership with the Snohomish County PUD as part of the Jackson Hydroelectric Project. It is located in the Sultan River Watershed, about 30 miles east of Everett, and holds about 50 billion gallons of water. The Sultan River Watershed covers 84 square miles and is one of the wettest watersheds in the Cascade Mountains. The average rainfall there is 165 inches a year.

Everett has long been committed to a strong program to protect water quality in Spada Reservoir. The watershed is patrolled on a regular basis, human activities are limited, and the City continually evaluates and adjusts security measures as needed.



## Average Daily Consumption

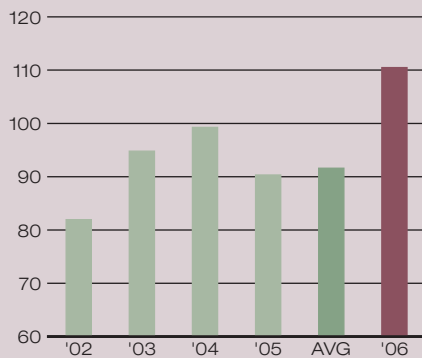
(Million Gallons Per Day)



The Everett Water Treatment Plant produced an average of 55.5 MGD of water in 2006—a 7.6 percent increase compared to 2005 (50.9 MGD). This can be attributed to population increases and fluctuations in annual temperatures and rainfall levels.

## Annular Peak Day Demand

(Million Gallons Per Day)



The peak day demand for treated water occurs in the summer months, usually July or August. The 2006 peak day demand was 110.5 MGD—over 18 percent more than the 2005 peak day demand (90.3), and 17 percent higher than the average peak day demand from 2002 to 2005 (91.6 MGD).

## Water Utility

From Spada Reservoir, the water travels through a pipeline to Chaplain Reservoir where the Everett Water Treatment Plant is located. The plant is a direct filtration facility with a hydraulic capacity of 140 million gallons a day (MGD) with the existing clearwell, and an approved treatment capacity of 132 MGD. In addition to filtration, the facility provides chemical treatment for disinfection, corrosion control and fluoridation. After treatment, the water is conveyed to Everett through 76 miles of pipelines and tunnels.

The City of Everett is one of the largest water purveyors in the State of Washington. The City's extensive supply and transmission system provides the backbone for water supply throughout Snohomish County. The City delivers potable water to a half-million people including the residents of Everett, areas adjacent to the City, 31 wholesale water purveyors and 64 small water systems. The City also sells non-potable water to the Kimberly-Clark Corp. paper plant located on the Everett waterfront.

*Everett Water Treatment Plant*



## Water Utility

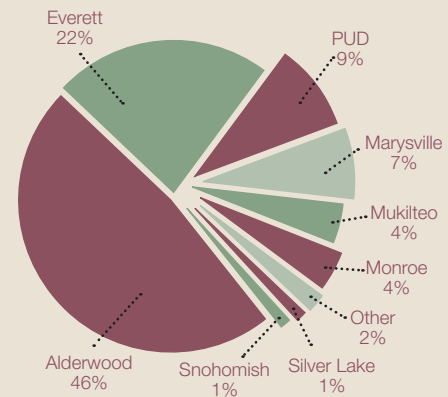
The Washington State Department of Health (DOH) requires water utilities to prepare Comprehensive Water System Plans (CWSP) every six years. CWSPs review existing water systems and 50-year population projections to ensure there will be adequate water supplies well into the future. The City of Everett's current CWSP was submitted in 2000. The City has submitted its 2006 CWSP to the Washington State DOH which will be approved in 2007.

The 2000 CWSP identifies a six-year capital improvement program of \$60 million and a 20-year capital improvement program of more than \$140 million. These investments are necessary to replace aging infrastructure and keep pace with the growing demand for water. The CWSP also includes a regional water conservation program that includes demand-side measures for residential and commercial customers. These activities are designed to reduce demand by more than 4 MGD.

*Everett Water Treatment Plant*

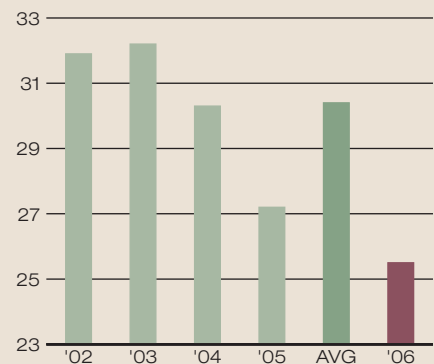


### Distribution of Treated Water (Percent of Demand)



Seven water systems account for 97 percent of the demand for water: Alderwood Water, Silver Lake Water, Snohomish County PUD and the cities of Everett, Marysville, Monroe and Mukilteo. The remaining 3 percent is used by small water districts and associations.

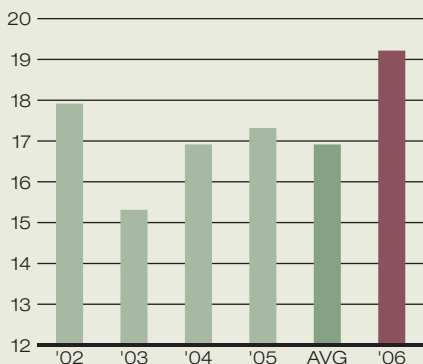
### Kimberly-Clark Consumption (Million Gallons Per Day)



In 2006, the City provided an average of 25.5 MGD to the Kimberly-Clark Corp.—a 6.6 percent decrease compared to 2005 (27.2 MGD) and 19.2 percent decrease from the previous four-year average (30.4 MGD). This can be attributed to production levels and efficiency improvements.

## Annual WPCF Flows

(Million Gallons Per Day)



In 2006, the Everett Water Pollution Control Facility processed an average of 19.2 MGD of wastewater—a 9.9 percent increase from 2005 (17.3 MGD) and 12.2 percent increase from the previous four-year average (16.9 MGD). Approximately half was treated by the lagoon system and half by the mechanical treatment plant.

## Sewer Utility

The City of Everett's wastewater system includes more than 300 miles of sewer lines and a treatment plant—the Everett Water Pollution Control Facility—located in north Everett. The system plays a vital role in protecting public health. It also protects rivers, lakes and streams from pollutants and minimizes harmful impacts to the natural environment.

The Everett Water Pollution Control Facility provides primary and secondary treatment of wastewater through a lagoon system and a mechanical treatment plant. The facility is permitted to treat 36.3 million gallons per day (MGD). The City of Everett provides sewer service to residential, industrial and commercial customers in Everett and portions of the Alderwood, Mukilteo and Silver Lake water districts.

The City began a \$35 million expansion of the Everett Water Pollution Control Facility in 2005 to meet the future demand for wastewater treatment. When completed, the project will increase the total capacity of the facility to 37.3 MGD.

*Everett Water Pollution Control Facility*



## Sewer Utility

The city continually works to enhance the operation of the Everett Water Pollution Control Facility and minimize impacts on the environment. Wastewater is carefully monitored at each stage of the treatment process. Samples are taken and tested daily to make sure the facility is operating correctly and meets state and federal standards. Equally important, these tests ensure the treatment process is effective, and the effluent leaving the plant is safe to be recycled into the environment.

Historically, the City's treated wastewater was returned to the Snohomish River Estuary. In 2004, the City of Everett and the Kimberly-Clark Corp. completed construction of a deepwater outfall. This state-of-the-art outfall removed Kimberly-Clark's mill discharges from Everett's inner harbor. It has also enabled the City to eliminate significant discharges into the Snohomish River.

The outfall project protects wetlands and improves water quality for fish and other marine life in the Snohomish River Estuary and Port Gardner Bay. As part of the project, Kimberly-Clark is able to use some of the treated effluent from the Everett Water Pollution Control Facility for non-contact cooling purposes.



*Headworks,  
Pollution Control Facility*

*Everett Water Pollution Control Facility*



### Inspections, Cleanings & Repairs

*(Feet, Basins, Pounds)*

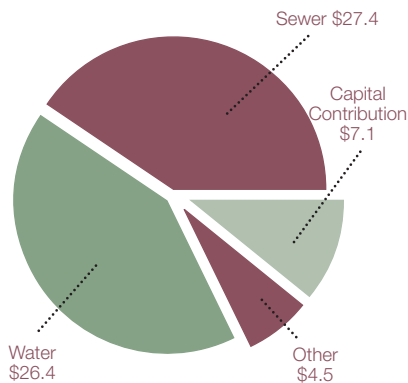
Sewer mains inspected	61,170 ft
Sewer mains cleaned	122,870 ft
Side sewers inspected	2,480 ft
Side sewers cleaned	1,260 ft
Drain lines installed	1,870 ft
Drain lines inspected	1,500 ft
Drain lines cleaned	19,610 ft
Catch basins cleaned	570 basins
Total spoils removed	1,201,420 lbs

Maintaining and upgrading the wastewater infrastructure is a high priority for the City. This is enhanced by responsible maintenance practices. During 2006, more than 40 miles of pipes and drain lines were inspected, cleaned or replaced, and more than 600 tons of spoils were removed.

## 2006 Financial Status

### 2006 Total Revenues

(Millions of Dollars)

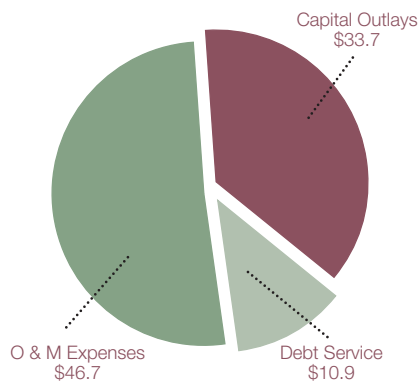


Everett Utilities Division continues to maintain a strong financial position. This has been accomplished by conservative budget assumptions and maintaining adequate cash reserves and a strong debt service coverage ratio. The division is committed to providing the best water and sewer services possible and strives to keep pace with innovations in the utility industry.

Operating revenues are primarily derived from retail and wholesale sales of water, and charges for sewer service. Other revenues are generated from connection charges, capital contributions, interest earnings on reserve balances, and grant proceeds. Total operating revenues increased 12.7 percent from \$47.7 million in 2005 to \$53.8 million in 2006. This favorable increase in operating revenue reflects the growth in the City's service area and 2006 water, sewer and surface water rate increases. Water sales increased \$3.1 million, or 13.3 percent, in 2006. Sewer sales increased by \$3 million, or 12.1 percent, in 2006. These increased revenues allowed the City to increase cash funding of water and sewer capital improvements. Other non-operating revenues contributed \$11.7 million for total revenues of \$65.4 million. Capital contributions increased by \$2.5 million resulting to \$7.1 million in 2006 from \$4.6 million in 2005. The City executed an agreement with the Tulalip Tribes and obligated \$5 million for building a waterline between Everett and the Tulalip Reservation.

### 2006 Total Expenses

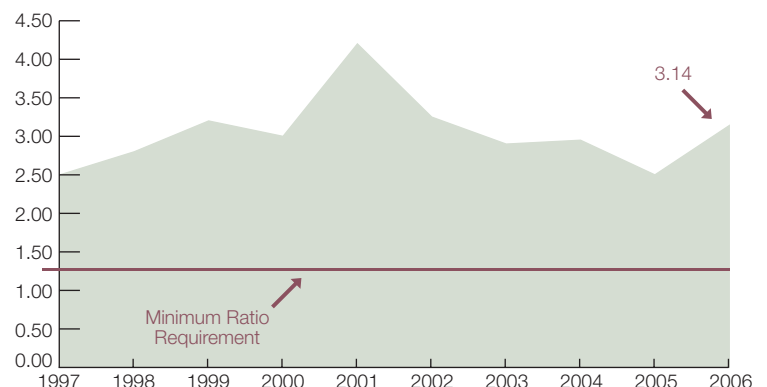
(Millions of Dollars)



Capital and operating expenditures consist of operation and maintenance (O&M), capital improvements and debt services. Capital expenditures amounted to \$33.7 million including capitalized interest. Debt service amounted to \$15.4 million in 2006. Total operating expenses increased by \$3.6 million to \$38.7 million in 2006 due primarily to the aggressive replacement of manual meter reads to radio frequencies and other repairs and maintenance. This radio frequency enhancement project is projected to be completed in 2007. The City of Everett adopted interest capitalization provisions of Financial Accounting Standards Board (FASB) Nos. 34 & 62. From the issuance of revenue bonds for capital construction projects and usage of public trust loans, the capitalized interest totaled to \$1.7 million in 2006. Total capital contributions for 2006 amounted to \$7.1 million, an increase of 54.2 percent.

Overall, Utilities Division senior lien debt service coverage continues to remain strong at 3.14, well in excess of bond requirements of 1.25.

### Debt Service Coverage - Last 10 Years



# 2006 Financial Status

## Statement of Operations\*

	2004	2005	2006*
<b>Operating Revenues</b>			
Charges for Services			
Water	\$ 22,487,658	\$ 23,317,556	\$ 26,407,225
Sewer	21,602,088	24,408,816	27,373,069
<b>TOTAL CHARGES FOR SERVICES</b>	<b>\$ 44,089,746</b>	<b>\$ 47,726,372</b>	<b>\$ 53,780,294</b>
<b>Operating Expenses</b>			
Personnel Services	\$ 12,740,846	\$ 13,497,122	\$ 13,970,276
Supplies	2,848,203	3,907,679	4,290,567
Professional Services	2,897,134	3,098,750	3,543,205
Depreciation/Amortization	7,644,747	8,431,017	8,895,759
Taxes	843,820	823,963	928,201
Outside/Intragovernmental Services	5,979,738	5,338,823	7,068,312
Total Operating Expenses	32,954,488	35,097,354	38,696,320
<b>OPERATING INCOME</b>	<b>\$ 11,135,258</b>	<b>\$ 12,629,018</b>	<b>\$ 15,083,974</b>
<b>Non-Operating Revenue (Expense)</b>			
Grant Revenue	\$ 122,830	\$ 17,345	\$ 65,905
Interest Revenue	904,616	1,230,625	3,733,213
Rent	560,225	584,684	552,504
Timber Sales	567,242	0	0
Other Non-Operating Revenue	107,332	149,253	184,086
Gain (Loss) on Sale of Assets**	65,026	185,232	15,364
Interest Expense	(835,499)	(1,240,548)	(3,259,554)
Other Non-Operating Expense***	0	0	(5,000,000)
Total Non-Operating Revenue (Expense)	1,491,772	926,591	(3,708,482)
Income Before Contributions & Transfers	12,627,030	13,555,609	11,375,492
Capital Contributions	3,865,669	4,603,846	7,099,575
Operating Transfers In (Out)	(2,309,479)	(2,849,396)	(3,036,001)
<b>NET INCOME</b>	<b>\$ 14,183,220</b>	<b>\$ 15,310,059</b>	<b>\$ 15,439,066</b>
Net Equity - Beginning	266,168,998	280,352,218	296,829,619
Prior Period Adjustments	0	1,167,342	0
<b>NET EQUITY - ENDING</b>	<b>\$ 280,352,218</b>	<b>\$ 296,829,619</b>	<b>\$ 312,268,685</b>

\* For the year ended Dec. 31, 2006 (unaudited)

\*\* Sale of Surplus Property

\*\*\* Tulalip Tribes Settlement for a Waterline Construction between Everett and Tulalip Reservation.

## Balance Sheet\*

	2004	2005	2006*
<b>Current Assets</b>			
Cash & Cash Equivalents	\$ 3,061,830	\$ 21,673,724	\$ 13,653,695
Investments	47,647,039	60,391,815	69,299,276
Accounts Receivable	8,078,479	14,988,711	11,802,492
Inventory	429,188	492,569	701,712
Total Current Assets	59,216,536	97,546,819	95,457,175
<b>Restricted Assets</b>			
Cash, Equivalents & Investments	3,706,434	4,069,916	3,846,607
Special Assessment Reserve	155,536	103,172	63,643
Total Restricted Assets	3,861,970	4,173,088	3,910,250
<b>Fixed Assets</b>			
Plant & Equipment (Net)	257,577,976	270,190,094	282,581,820
Construction in Progress	45,308,263	51,381,234	63,263,754
Total Fixed Assets	302,886,239	321,571,328	345,845,574
Other Non-Current Assets	3,672,548	4,551,014	3,719,025
<b>TOTAL ASSETS</b>	<b>\$ 369,637,293</b>	<b>\$ 427,842,249</b>	<b>\$ 448,932,024</b>
<b>Liabilities</b>			
Current Debt	\$ 7,104,326	\$ 7,694,342	\$ 9,419,204
Accounts Payable	1,965,890	2,298,211	2,949,657
Employee Benefits Payable	919,893	1,303,912	855,649
Total Current Liabilities	9,990,109	11,296,465	13,224,510
<b>Non-Current Liabilities</b>			
Long-Term Obligations	79,283,216	119,705,696	123,429,639
Deferred Revenues	11,750	10,469	9,190
Total Long-Term Liabilities	79,294,966	119,716,165	123,438,829
<b>TOTAL LIABILITIES</b>	<b>\$ 89,285,075</b>	<b>\$ 131,012,630</b>	<b>\$ 136,663,339</b>
<b>Fund Equity</b>			
Capital Assets, Net of Debt	\$ 218,117,128	\$ 206,700,855	\$ 219,014,548
<b>Retained Earnings (Reserved Restricted Assets)</b>	<b>3,848,940</b>	<b>4,161,338</b>	<b>3,899,780</b>
Retained Earnings (Unreserved)	58,386,150	85,967,426	89,354,357
Total Retained Earnings	62,235,090	90,128,764	93,254,137
<b>TOTAL FUND EQUITY</b>	<b>\$ 280,352,218</b>	<b>\$ 296,829,619</b>	<b>\$ 312,268,685</b>
<b>TOTAL LIABILITIES/EQUITY</b>	<b>\$ 369,637,293</b>	<b>\$ 427,842,249</b>	<b>\$ 448,932,024</b>

\* For the year ended Dec. 31, 2006 (unaudited)

# 2006 Financial Status

## Historical Operating Results\*

	2004	2005	2006*
<b>Operating Revenue</b>			
Charges for Services:			
Water	\$ 22,488	\$ 23,317	\$ 26,407
Sewer	21,602	24,409	27,373
<b>Total Operating Revenues</b>	<b>44,090</b>	<b>47,726</b>	<b>53,780</b>
<b>Operating Expenses**</b>			
Wages	12,741	13,497	13,970
Supplies	2,848	3,908	4,291
Professional Services	2,897	3,099	3,543
State Taxes	844	824	928
Outside/Intragovernmental Services	5,980	5,339	7,068
<b>Total Operating Expenses</b>	<b>25,310</b>	<b>26,667</b>	<b>29,800</b>
<b>NET OPERATING REVENUE</b>	<b>\$ 18,780</b>	<b>\$ 21,059</b>	<b>\$ 23,980</b>
<b>Other Revenue (Expense)</b>			
Grant Revenue	123	17	66
Investment Income	905	1,231	3,733
Non-Bond Interest	0	(232)	(305)
Rent	560	585	553
Other Revenue	107	149	184
Timber Sales	567	0	0
LID/ULID Assessments	59	49	40
Gain on Sale of Assets	65	185	15
<b>Total Other Revenue</b>	<b>2,386</b>	<b>1,984</b>	<b>4,286</b>
<b>TOTAL AVAILABLE FOR DEBT SERVICE</b>	<b>\$ 21,166</b>	<b>\$ 23,043</b>	<b>\$ 28,266</b>
<b>Debt Service Requirements</b>			
Existing Senior Parity Debt Service	7,309	8,991	8,991
Existing PWTF & SRF Loans**	1,486	2,564	2,958
<b>Total Debt Service</b>	<b>8,795</b>	<b>11,555</b>	<b>11,949</b>
Parity Lien Debt Service Coverage Ratio	2.90	2.56	3.14
Total Debt Service Coverage Ratio***	2.41	1.99	2.37
Less Payment in Lieu of Taxes**	2,677	2,677	2,677
<b>ENDING BALANCE AVAILABLE</b>	<b>\$ 9,694</b>	<b>\$ 8,811</b>	<b>\$ 13,640</b>

\* In thousands of dollars for the year ended Dec. 31, 2006 (unaudited)

\*\* Total expenses exclusive of depreciation, payments in lieu of taxes and bond interest.

\*\*\* The junior lien debt is the Public Works Trust Fund ("PWTF") loan and State Revolving Fund (SRF) loans.

## Notes To Financial Statements

### Upgraded Bond Rating

The Division received an upgraded bond rating from Moody's Investors Services in 2005. Moody's Investors Services increased the rating from A1 to Aa3, while Standard & Poor's Investor Service maintained the bond rating at AA-. This was the first bond rating upgrade for the City of Everett since 1997. Moody's Investor's Service noted the Division's sound finances with healthy debt service coverage, manageable debt levels and satisfactory legal provisions.

### Debt Administration

The City of Everett issues revenue debt and pledges to pay the debt requirements from the sales derived from the Utilities Fund. The City of Everett revenue bond rating is Aa3 by Moody's Investors Services and AA- by Standard and Poor's Investor Service. Moody's Investor's Service noted the Utilities' sound finances with healthy debt service coverage, manageable debt levels and satisfactory legal provisions. As of Dec. 31, 2006, the Division had the following outstanding debts (excluding interest): \$90.9 million of water and sewer revenue bonds, \$31.2 million of Public Works Trust Fund loans, and \$200,000 proprietary fund lease. The City has set aside cash reserves of \$3.8 million to finance the redemption funds and annual debt service requirements. Additionally, the City complies with all significant limitations and restrictions as disclosed in the bond covenants. The City is required by its bond covenant to maintain debt service coverage of 1.25.

### Annual Debt Service

#### Senior Parity Bonds

	ANNUAL		
YEAR	PRINCIPAL	INTEREST	REQUIREMENT*
2007	\$ 4,585,000	\$ 4,406,208	\$ 8,991,208
2008	3,765,000	4,202,433	7,967,433
2009	3,940,000	4,026,033	7,966,033
2010	4,140,000	3,838,645	7,978,645
2011	2,285,000	3,638,838	5,923,838
2012-2016	13,115,000	16,502,588	29,617,588
2017-2021	16,715,000	12,909,138	29,624,138
2022-2026	21,250,000	8,374,437	29,624,437
2027-2030	21,105,000	2,589,350	23,694,350
<b>TOTAL</b>	<b>\$ 90,900,000</b>	<b>\$ 60,487,668</b>	<b>\$ 151,387,668</b>

\* Outstanding bonds include 1997 Bonds, 2002 Bonds, 2003 Bonds and 2005 Bonds.

# 2006 Financial Status

## Notes To Financial Statements

### Annual Debt Service

#### Public Trust Loans

YEAR	PRINCIPAL	INTEREST	ANNUAL REQUIREMENT*
2007	\$ 1,866,621	\$ 757,872	\$ 2,624,493
2008	2,216,622	741,100	2,957,722
2009	2,162,442	719,457	2,881,899
2010	2,082,398	698,355	2,780,753
2011	2,064,398	678,055	2,742,453
2012-2016	8,660,965	3,116,178	11,777,143
2017-2021	7,653,202	2,793,561	10,446,763
2022-2026	4,513,284	2,059,793	6,573,077
<b>TOTAL</b>	<b>\$ 31,219,932</b>	<b>\$ 11,564,371</b>	<b>\$ 42,784,303</b>

\* Outstanding public trust loans include 1988, 2001, 2003, 2004, 2005 and 2006 loans.

In 2006, the Everett Water Pollution Control Facility was awarded a \$7 million Washington State Public Works Trust Fund Construction Loan with 0.5 percent interest rate to finance the expansion of the City's Water Pollution Control Facilities. The outstanding loans increased from \$25.4 million in 2005 to \$31.2 million in 2006.

### Capital Improvement Projects (CIPS)

The Division spent \$33.7 million on CIPs in 2006 including capitalized interest of \$1.7 million. These programs were financed from a combination of capital contributions, operation revenues, government loans, revenue bonds and grants. The year ended with \$83 million in unrestricted cash and investment balances. The overall strong financial performance of the Utilities Division ensures future funding for capital projects.

### Historical Rates

For single-family customers, the water flat rate increased by \$1.65 or 9.6 percent, from \$17.10 to \$18.75 per month in 2006 to cover increased water O&M and capital costs. For wholesale customers, a 20-percent-rate multiplier has been added to the water charge.

For single-family customers, the sewer flat rate increased by \$3.65 or 10.5 percent, from \$34.75 to \$38.40 per month in 2006 to cover the capital cost of expanding the Everett Water Pollution Control Facility, increased sewer and surface water O&M, and other sewer projects.

	WATER RATES	SEWER RATES
2002	\$16.50	\$25.65
2003	\$16.50	\$28.15
2004	\$16.50	\$30.65
2005	\$17.10	\$34.75
2006	\$18.75	\$38.40

### Major Water Customers

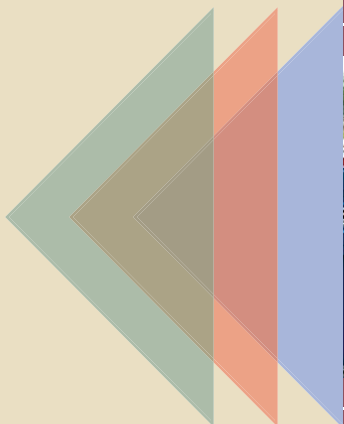
The eight largest water customers in the Everett Water Service Area accounted for over 93 percent of the 2006 water service revenues:

CUSTOMER	REVENUE
Everett Retail Customers	\$ 9,508,989
Alderwood Water District	8,950,983
PUD/City of Lake Stevens	1,557,373
Mukilteo Water District	1,339,039
City of Marysville	1,138,537
Kimberly-Clark	1,302,000
City of Monroe	755,894
Silver Lake Water District	177,010
<b>TOTAL</b>	<b>\$ 24,729,825</b>

### Major Sewer Customers

Four service areas served by the Everett Water Pollution Control Facility accounted for about 94 percent of the 2006 sewer revenues:

CUSTOMER	REVENUE
City of Everett Customers	\$ 19,283,731
Silver Lake Water District	4,005,143
Alderwood Water District	1,836,853
Mukilteo Water District	835,763
<b>TOTAL</b>	<b>\$ 25,961,490</b>



**City of Everett** Utilities Division

3200 Cedar St. • Everett, Wash. 98201

Phone 425-257-8800 • [www.ci.everett.wa.us](http://www.ci.everett.wa.us)